Equity Research

DENISON MINES CORP.

Strategic Uranium Purchase the Smart Way to Fund Wheeler River

EVENT

Last week Denison Mines announced a strategic initiative whereby it will purchase approximately 2.5 MMlb U_3O_8 in the spot market. This material will be held in inventory by the Company over the long-term and ultimately support the construction financing for its 90%-owned high-grade Wheeler River uranium project.

BOTTOM LINE

Positive – We are off research restriction following completion of the $86.3 MM equity financing (including full exercise of the overallotment option) that will be used to fund the strategic U_3O_8 purchase.

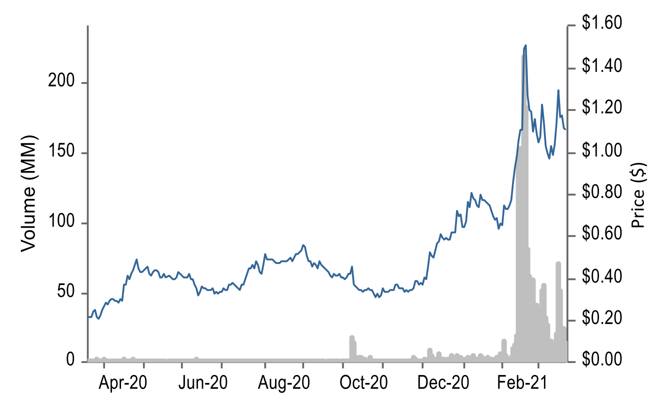
FOCUS POINTS

- **Smart and Creative Project Financing:** The strategic purchase of uranium in the spot market is a highly inventive solution to the future project financing requirements for Wheeler River. The ~2.5 MMlb U_3O_8 inventory will likely serve as collateral for debt in the future, materially reducing any required equity component of project financing for Phoenix (Wheeler River Phase I).
- **Improves LT Contracting Prospects:** The ~2.5 MMlb U_3O_8 inventory will not be available for re-sale back into the spot market. Rather, it will improve Denison's flexibility when it comes to signing long-term contracts with utilities for future production from Phoenix.
- **Additional Leverage:** By holding U_3O_8 directly in inventory, Denison has additional leverage to uranium prices, which are on the rise.
- **Maintaining Buy Rating and Increasing Target:** We are maintaining our Buy rating and increasing our target price on Denison Mines to $2.25/C$2.75/share, up from $1.75/C$2.25/ share previously.

Recommendation:	**BUY**
Symbol/Exchange:	DNN-NYSE / DML-TSX
Sector:	Metals & Mining
All dollar values in US$ unless otherwise noted.	
Current price:	$1.11; C$1.43
One-year target:	$2.25; C$2.75↑
Return to target:	102.7%
Cash and U_3O_8 in inventory:	~C$180 MM

Company Summary

Shares O/S (MM)	801.9	52-week range	$0.19 - $1.81
Market cap ($MM)	$914.1	30D avg vol. ('000)	40,864.0
Market float ($MM)	$909.2	Fiscal year-end	31-Dec
Probable Reserves	**Tonnes**	**U_3O_8 Grade**	**Attrib. Resource**
Wheeler River	1,398,000	3.54%	98.4 MMlb
M&I Resources	**Tonnes**	**U_3O_8 Grade**	**Attrib. Resource**
McClean Lake Deposits	376,400	2.18%	4.0 MMlb
Midwest	1,019,000	2.26%	12.8 MMlb
Waterbury Lake	291,000	2.00%	8.6 MMlb
Wheeler River	1,809,000	3.30%	118.9 MMlb
Inferred Resources	**Tonnes**	**U_3O_8 Grade**	**Attrib. Resource**
McClean Lake Deposits	510,900	0.68%	1.6 MMlb
Midwest	846,000	0.98%	4.6 MMlb
Waterbury Lake	268,000	0.96%	3.8 MMlb
Wheeler River	82,000	1.70%	2.7 MMlb



Company profile: Denison Mines is a uranium exploration company and development company focused on the Athabasca Basin. Its 90%-owned Wheeler River project is one of the highest-grade uranium projects globally.

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See disclosure and a description of our recommendation structure at the end of this report.

2.5 MMLB U_3O_8 STRATEGIC URANIUM PURCHASE

Last week Denison Mines announced a strategic initiative whereby it will purchase approximately 2.5 MMlb U_3O_8 in the spot market. This material will be held in inventory by the Company over the long-term and ultimately support construction financing for its 90%-owned high-grade Wheeler River uranium project in the Athabasca Basin (Northern Saskatchewan, Canada). We are off research restriction following completion of the $86.3 MM equity financing (including full exercise of the overallotment option) that will be used to fund the strategic U_3O_8 purchase. The unit financing was completed at $1.10/share and included a half-warrant (exercise price $2.25/share) with a two-year expiry. Cantor Fitzgerald acted as lead underwriter and sole book-runner in the financing.

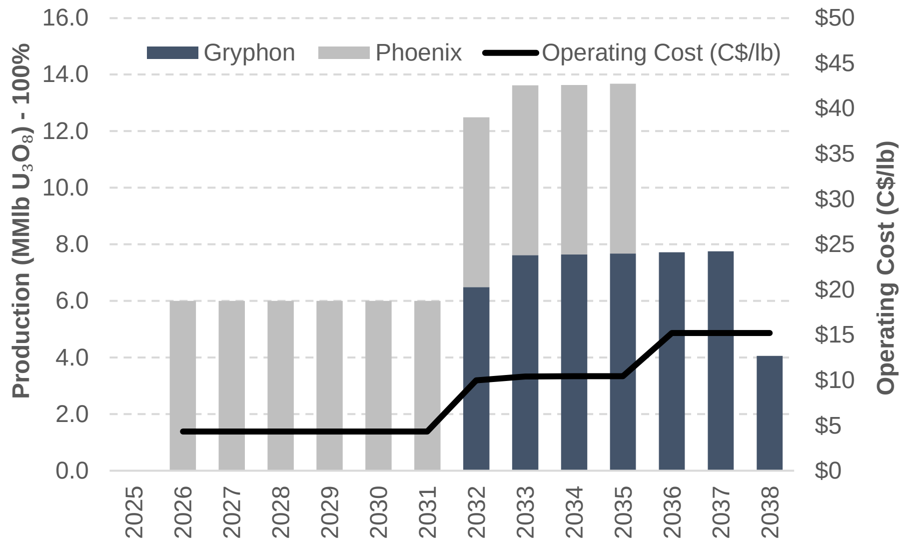
SMART AND CREATIVE PROJECT FINANCING

The strategic purchase of uranium in the spot market is a highly inventive solution to address the future project financing requirements for Wheeler River (Phase I initial CAPEX of C$322.5 MM). The ~2.5 MMlb U_3O_8 inventory will likely serve as collateral for debt in the future, materially reducing any required equity component of project financing for Phoenix (Wheeler River Phase I). Previously, we assumed a 60/40 debt/equity split to fund the initial C$290 MM in capital (Denison's 90% interest) for Phoenix, which we continue grossing up to C$350 MM to account for working capital, contingency and/or cost overruns. In our previous model, this equated to project debt for Phoenix of C$210 MM and an equity component of C$140 MM, which we assumed would be raised at a ~15% discount to market. At current spot prices of $29.55/lb U_3O_8, Denison's ~2.5 MMlb U_3O_8 strategic inventory could potentially be collateralized by up to +C$90 MM in future debt, in addition to the C$210 MM in project debt secured by Phoenix, reducing the future equity requirement to a far less dilutive ~C$50 MM (C$140 MM less: C$90 MM in collateralized U_3O_8 inventory). As uranium prices move higher, so does the value of Denison's strategic 2.5 MMlb U_3O_8 inventory and the amount of potential future collateral it can support. When a positive construction decision is made at Wheeler River (in the next 2-3 years, Cantor estimate), based on the supply-demand fundamentals, we forecast spot prices in the $50-55/lb U_3O_8 range. This would value Denison's strategic 2.5 MMlb U_3O_8 inventory at C$155-170 MM based on current C$/US$ FX rates, eliminating the equity component of project financing entirely. We expect that when a positive construction decision is ultimately made at Wheeler River, the cost of capital of this $86.3 MM equity financing and 2.5 MMlb U_3O_8 purchase will look exceptionally attractive in hindsight.

IMPROVES LONG-TERM CONTRACTING PROSPECTS

Denison's forthcoming purchases of ~2.5 MMlb U_3O_8 will not be available for re-sale back into the spot market at any point in the near future. Rather, the material will remain in inventory, and as previously noted, likely used by Denison as collateral for additional non-dilutive debt financing for Phoenix. Ultimately, the ~2.5 MMlb U_3O_8 will likely be blended in with future production from Phoenix and delivered into long-term contracts when the mine has achieved nameplate production. We expect long-term contract prices of +$60/lb U_3O_8, well above Denison's purchase price of ~$29/lb (Cantor estimate) on the ~2.5 MMlb U_3O_8. As outlined in the 2018 Pre-Feasibility Study (PFS), Wheeler River will be put into production at the Phase I rate (Phoenix) of 6.0 MMlb U_3O_8 per year. The ~2.5 MMlb U_3O_8 of inventory therefore effectively "covers" the critical initial 5-6 months of the mine's ramp-up phase. This will provide considerable added comfort from the perspective of the utilities that Denison will be able to satisfy its obligations under the first long-term contract deliveries from Phoenix. As a result, this should improve the Company's flexibility when it comes to signing long-term contracts with its customers (the utilities) on more attractive terms to Denison.

Exhibit 1. Wheeler River Project Production Forecast (Cantor estimates)



Source: Cantor Fitzgerald

ADDITIONAL LEVERAGE TO URANIUM PRICES

By holding U_3O_8 directly in inventory, Denison now has additional leverage to rising uranium prices. While it is still uncertain as to how much U_3O_8 Denison will be able to secure (remove) from the spot market, the intent is to purchase approximately 2.5 MMlb. At current spot prices, which have moved from $27.63/lb to $29.55/lb over the course of last week, this would equate to material valued at $69.1-73.9 MM, well covered by the proceeds raised by Denison of $86.3 MM ($81.9 MM net of fees). Assuming a purchase of 2.5 MMlb U_3O_8, current spot uranium prices, and the pro-forma common shares outstanding from the most recent equity financing, Denison is holding C$0.12/$0.09/share in physical uranium, or 0.00312 lb U_3O_8 per share.

2.5 MMLB PURCHASE WILL PUSH SPOT PRICE HIGHER

According to UxC consulting, global primary uranium production fell to 123 MMlb U_3O_8 in 2020, its lowest level in more than a decade. Spot market transactions totaled +90 MMlb U_3O_8 last year (the highest level on record), with producers and intermediaries accounting for ~80% of the volume. On a normalized basis, spot market transactions tend to average 40-60 MMlb U_3O_8 over the course of a typical calendar year, and we expect 2021 will return to these levels. We note that over the last several weeks, Yellow Cake PLC (YCA-LN, Buy – £3.00/share target) announced purchases totaling 3.94 MMlb U_3O_8 (notes linked here and here), that when combined with Denison's targeted purchases of ~2.5 MMlb U_3O_8, should be sufficient to completely remove any "supply overhang" in the spot market. As expected, spot prices have begun moving higher, from a low of $27.63/lb at the start of last week to the quoted spot market price of $29.55/lb as of the close on Friday. This 7.0% move is the largest weekly move higher in 12-months, when Cameco (CCJ-NYSE/CCO-TSX, Hold – $15.75/C$20.50 target) announced plans to shutdown its flagship Cigar Lake mine in March of last year.

MARKET IMPLYING +13% MOVE HIGHER IN U_3O_8 SPOT

Further reinforcing our thesis that spot uranium prices are poised to move sustainably higher is the premium currently maintained by the two best uranium price proxies, Yellow Cake PLC, and Uranium Participation Corp (U-TSX, Buy – C$5.50 target). At YCA's and U's most recent closing prices of £2.64/share, and C$5.43/share, based on current spot uranium prices and FX rates, the two companies are trading at 1.13x and 1.14x NAVPS (well above intrinsic value), respectively (Exhibits 2 and 3). Historically, this has proven to be an excellent leading indicator of a sustainable move higher in spot uranium prices. Based on YCA's most recent closing price, the market is implying a U_3O_8 spot price of $33.45/lb, 13.2% higher than the current U_3O_8 spot price of $29.55/lb. Based on Uranium Participation Corp's most recent closing price, the market is implying a U_3O_8 spot price of $33.70/lb, 14.1% higher than the current U_3O_8 spot price. Premiums and discounts to NAVPS are commonplace and indicative of market sentiment as it relates to the direction of uranium prices. NAVPS premiums indicate pending strength in U_3O_8 spot prices, and NAVPS discounts indicate the opposite.

Exhibit 2. Yellow Cake NAV Based on Current U_3O_8 Prices

YCA-LN	Unit	Inventory	Spot Price $	Spot Price GBP	Market Value ($'000)
U3O8	lb	13,256,385	$29.55	£21.30	$391,726
Inventory					$391,726
Net Working Capital					$23,545
Net Asset Value					$415,272
Net Asset Value Per Share					**£2.33**
P/NAVPS					**1.13x**

Source: FactSet, Cantor Fitzgerald Estimates, Yellow Cake Plc.

Exhibit 3. Uranium Participation NAV Based on Current U_3O_8 Prices

U-TSX	Unit	Inventory	Spot Price $	Spot Price C$	Market Value (C$'000)
U3O8	lb	16,269,658	$29.55	C$36.88	C$600,060
UF6	kg	300,000	$98.00	C$122.32	C$36,695
Inventory					C$636,755
Net Working Capital					C$5,669
Net Asset Value					C$642,424
Net Asset Value Per Share					**C$4.76**
P/NAVPS					**1.14x**

Source: FactSet, Cantor Fitzgerald Estimates, Uranium Participation Corp.

CHANGES TO OUR DENISON NUMBERS

Our DCF-based NAVPS model for Denison continues to assume 60% of the initial CAPEX requirement for Phoenix is funded via project debt secured against the asset, and we continue grossing up Denison's share of the C$290 MM initial capital requirement to C$350 MM, layering in additional contingencies. In our previous model, this equated to C$210 MM of project debt secured by Phoenix and an equity component of C$140 MM, that we assumed would be raised at a ~15% discount to market. Going forward, we are leaving the C$210 MM project debt assumption unchanged, and reducing the equity component from C$140 MM to ~C$50 MM. The ~C$90 MM delta we expect will be covered via additional debt secured/collateralized against Denison's 2.5 MMlb U_3O_8 inventory, which we conservatively value at the lower of cost or market presently. The reduced equity component of future construction financing for Phoenix materially lowers our projected fully financed fully diluted shares outstanding for the Company. The result is an increase to our NAVPS estimate on Denison Mines to C$1.98/share, up from C$1.53/share previously. We note that as spot uranium prices continue moving higher, so will the value of the Company's 2.5 MMlb U_3O_8 inventory. This would further reduce the potential future equity financing component for Phoenix and drive a higher NAVPS and target price for Denison Mines.

Exhibit 4. Updated NAVPS of Denison Mines

Asset (C$)		Value ($MM)	$ Per Share	% of NAV
Wheeler River (90%)	7.5%	$1,225.4	$1.42	65%
McClean Lake Mill (22.5%)	7.5%	$316.3	$0.37	17%
Waterbury Lake (66.9%)	7.5%	$72.0	$0.08	4%
Athabasca Properties ($/lb)	$2.00/lb	$57.8	$0.07	3%
Total Mining Assets		$1,671.6	$1.93	89%
Cash and S/T Investments*		$89.8	$0.10	5%
U3O8 in Inventory*		$90.6	$0.10	5%
Investment in GoviEx (GXU-TSXv)		$22.1	$0.03	1%
Current Debt + S/T Leases		$0.0	$0.00	
Long Term Debt + Leases		$0.0	$0.00	
Future Equity Financing		$49.4	$0.06	
Future Debt Financing		($210.0)	($0.24)	
Net Asset Value		**$1,713.5**	**$1.98**	
P/NAV			0.72x	

*Adjusted for estimated uranium spot market purchase(s)
Source: Cantor Fitzgerald

UPCOMING DEVELOPMENT MILESTONES

The Wheeler River development budget for 2021 has been set at C$24.0 MM (C$19.4 MM net to Denison including operator fees) and the work program is fully permitted. The primary objectives for 2021 are to model the hydrogeological characteristics of the Phoenix ore body, finalize the production well design pattern, and confirm cost estimates for the commercial-scale wells (CSWs). As such, the results from the 2021 test program will have significant implications to the overall economics of the project. The ISR field program to be undertaken this year will support the completion of a Feasibility Study (FS) at Wheeler River in early 2022 in coordination with the submission of a draft Environmental Impact Statement (EIS), also targeted for early 2022. We expect completion of the Environmental Assessment (EA) process in H2/2023 at which point Wheeler River will be construction ready. With ~C$90 MM in cash, ~C$90 MM in forthcoming uranium in inventory, and no debt, Denison is fully financed through permitting and a construction decision, with a substantial portion of the equity component of project financing (via collateralizing its U_3O_8 inventory) now secured.

TIER ONE PROJECT BY ALL ACCOUNTS

In terms of size, grade, location (eastern side of the Athabasca Basin), cash costs, capital intensity, and overall project economics, Denison's 90%-owned Wheeler River uranium project is by all accounts, Tier One in status. In our view, its only comparables are Cameco's McArthur River and Cigar Lake mines, currently on care-and-maintenance, and to a lesser extent, NexGen Energy's (NXE-NYSE/TSX, Not Covered) Rook 1 (Arrow) project, located on the western side of the Athabasca Basin. With Denison now fully cashed-up to initial construction at Wheeler River, we expect potential large-cap suitors and/or JV-partners to begin "sharpening their pencils" and looking at the Company through the lens of M&A. Wheeler River enjoys all the infrastructure already in place on the eastern side of the Athabasca Basin, and Denison already owns a 22.5% minority stake in the McClean Lake Mill (operated by Orano) that will ultimately process the high-grade ore mined from the Gryphon deposit (Phase II of Wheeler River). Denison Mines and the Wheeler River project have always topped the list of potential takeover candidates in the uranium sector, and with sufficient cash to bring the project to a construction go-ahead decision, we expect potential suitors will begin to line up.

POSITIVE SENTIMENT IN URANIUM ACCELERATING

Over the last 3-4 months, sentiment in the uranium sector has turned increasingly positive, as we originally highlighted in our recent Macro Report: *A Green Economy and Electric Vehicles Start with Metals* on January 25 (link here). More recently, over the last 1-2 weeks, this has been confirmed by a sharp move higher in spot uranium prices, which we expect will continue as indicated by the widening P/NAVPS premiums of U-TSX and YCA-LN. As a reminder, under the Biden Administration, the United States has rejoined the Paris Climate Agreement that calls for net-zero carbon emissions for most of the developed-world by 2050. With uranium currently generating 80% of carbon-free grid power in the United States, coupled with the aggressive nuclear power expansion plans of China (the world's second largest economy), it has become abundantly clear that nuclear power has a critically important and *growing* role to play in the energy mix of the future. As a long-standing ally of the United States, Canada and its uranium mines in Northern Saskatchewan's Athabasca Basin have always been a preferred supplier to the U.S. utilities, which operate the largest fleet of nuclear reactors in the world. Denison's Wheeler River, as a Tier One project, will have an important role to play in filling the growing uranium supply-demand imbalance in the coming years (2025+) as the United States, and the developed-world, move toward net-zero carbon emissions.

MAINTAINING BUY RATING, RAISING PRICE TARGET

Incorporating a 2.5 MMlb U_3O_8 purchase, the pro-forma common shares outstanding from the most recent placement and reducing the equity component of future project financing for Phoenix, our fully financed fully diluted NAVPS estimate for Denison increases from C$1.53 to C$1.98. Based on an unchanged target multiple of 1.5x $NAVPS_{7.5\%}$ (rounded) on its projects, and 1.0x NAVPS on its net financial position, we are increasing our target price on Denison Mines to $2.25/C$2.75/share from $1.75/C$2.25/share previously. Given the Tier One status of the Wheeler River project, its top spot on the list of potential takeover candidates in the uranium sector, and the Company's balance sheet which is fully cashed-up through to construction, Denison should be a core holding for any/all institutional investors with a uranium focus, energy allocation, or Environmental, Social, and Governance (ESG) criteria. We maintain our Buy rating on the Company.

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The analyst responsible for this report *has* visited the material operations of Denison. No payment or reimbursement was received for the related travel costs.

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BUY (Speculative): The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

SELL: The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.

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